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Iran

Geography, Politics, Economics, Government, Problems
and Village Affairs

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1. Geography

"The outer wall of the free world's defense line runs along the mountain chains from Greece through Turkey to Iran and east to Pakistan. The weak spot is Iran. Greece and Turkey are staunch and so is Pakistan; but Iran is crumbling. This is a highly dangerous situation. The Ribbentrop-Molotov conversations in 1940 explored a possible division of the world between the Nazis and the USSR. Hitler's questions as to Soviet territorial aspirations were referred to the Kremlin. Stalin's answer was modest - he wanted the territory south of Batum and Baku. This means that all he wanted was access to the Gulf, control of the oilfields, a corridor (Iran) through our defenses and air and sea communications, and a back door to the Suez Canal and Africa, as well as to India, southeast Asia and Australia.

2. "Iran must be thought of as a vital area. For many reasons it must be treated separately. The Iranians think of themselves as an old and continuous center of civilization, linked with Europe rather than Asia. Ethnically they are of European stock. They talk of collaboration across Afghanistan with Pakistan, but will have nothing to do with the Arab countries which they despise and refer to as 'des pays barbares'. More than one of them read us a lecture on the way in which the Arab invasion had damaged Persian culture. They all were careful to draw a distinction between the Moslem world and the Arab world. Any effort at regional organization must, in fact, be confined to the inner circle of the Arab countries - Iraq, Syria, Lebanon, Jordan, and Saudi Arabia. It is more than doubtful whether Egypt can be included. It is certain that Turkey and Iran must be dealt with as separate entities, even though cooperation on a technical level might be arranged with the Arab group.

3. Politics and Economics

"The precarious political and economic situation in Iran is immensely complicated by what can only be described as an irrational, emotional state of mind which has been built up by intense nationalist and religious propaganda. For a couple of centuries at least, Iran has played north against south -- Russian against British threats to her national independence. She has played from weakness, but on the whole successfully. The present nationalism is, however, complicated by the struggle of vested interests to maintain their privileged position, by the lodgment of

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Communist cells not only in Teheran and in the industrial workers on the oilfields, but also throughout the villages, and by a curious ambivalent attitude toward the US. The inconsistent policy followed by the US on the one hand extends effective technical and minor financial assistance through the Point Four organization and on the other hand lends tacit support to the British withholding of economic support as a means of pressure in the oil dispute. At present nationalist emotion finds vent primarily against the British. The most grotesque charges are made against them, e.g., that the plane in which Dr. Bennett and his party met their death, which was the same plane that two weeks earlier had carried the Prime Minister back to Iran, had been sabotaged but that the sabotage had miscarried. There is no mistaking the intensity of resentment and suspicion directed at the British, nor the hold this has taken of the wide circles of the intelligentsia and of the uninformed public. It is fomented by Soviet propaganda, but it has deeper roots. It would now seem impossible that the nationalization of the oil refinery, as well as the oil itself, should be reversed or that the Anglo-Iranian Company should regain possession of its former properties, or even that British technicians should again be employed except possibly as individuals in an Iranian or international company. The formulas based on the idea of the National Oil Company becoming a front and making an agreement with Anglo-Iranian to operate the refineries, are now impossible. One of the main reasons for this is resentment, even among British-educated technicians, of former discriminatory policies. Behind this is deep resentment of the social superiority which has been the mark of British policy developed from the former center of British rule in India from which all Persian Gulf interests were directed. The fact that the British Government took in taxation more than Iran was paid in royalties is also bitterly resented.

4. "This does not mean that ruling circles intend to capitulate to Soviet pressure either from within or from without. Indeed they are as stiff in their resistance to Soviet demands as they are to the British. But their economic collaboration with the USSR in an effort to surmount the present trading and exchange has opened a wide door to Soviet influence. Fortunately the Soviets, in their economic weakness, have not been able to deliver the promised counterpart of Iranian exports, and Point Four has to some extent counteracted their influence. It is always possible, however, that in the present state of high emotional tension, even a brief period of political instability at a time of imminent economic collapse, may give an opportunity at least for riots, if not for a putsch, by the Tudeh party. This party is outlawed and its leaders have been in gaol for some months; but some of these leaders escaped and the party is very active especially among students and the unemployed in Teheran. There is evidence also of preparations for demonstrations by the oil workers at Abadan. The extreme right wing of the nationalist religious groups is linked with the extreme left in resistance to any compromise with the British, and this resistance extends to cooperation with the US, which is regarded as backing the British.
5. Government
The government at present is in the hands of the National Front. The newly elected Majlis is not yet organized and is still conducting violent disputes concerning the seating of some of its members. Party strife, which is conducted largely in the newspapers, which are numerous and largely irresponsible, has been suspended during the Prime Minister's absence. This is a demonstration of national unity in regard to the oil nationalization program. Party conflict is certain to be resumed when the Prime Minister returns. The basis of it is discontent with the government's concentration on the oil dispute, to the neglect of all other pressing questions. The economic condition of the country is pitiable and worsens daily. The government maintains that this is due to the British economic blockade; but there is a large and vocal body of opinion which, while supporting oil nationalization, maintains that the business of the country has been neglected because of the present government's obsession with the oil dispute.
6. "The consensus of opinion, in Iranian as well as foreign circles, was that the government must soon fall. There is a probability that the Prime Minister may resign as soon as he returns. There was no certainty as to what might ensue. There might be a reconstitution of the present government based on a majority in the newly-elected Majlis. This might involve a shift further to the extreme nationalist position. There might be a Tudeh putsch, especially if there was a period of instability and difficulty in forming a new government. The Shah might decide to install a more conservative government and, if necessary, to suspend

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the Majlis and parliamentary rule. It is a difficult decision for him to take. He must choose the moment, the man, and the means to resolve the present drift towards chaos. In doing so he must calculate the risks of violent demonstrations, riots, and assassinations, even of attempts on the throne and on his own life. He has been criticized for weakness in not intervening sooner, but has apparently chosen to wait until the present regime falls by its own failure to resolve either the oil dispute or the country's internal problems, which are immensely aggravated by the oil dispute. It is evident that premature intervention might result in setting up a revolutionary situation if the government could rally public support for its position. On the other hand, to wait too long involves the risk of complete collapse of the economic life of the country and paralysis of its political machinery.

7. "The inner group of the Council of Ministers is fanatically nationalist and anti-foreign; but many ministers are moderate and constructive in their approach to cooperation, particularly with the US. The court is the rallying point of the pro-American group. The Shah himself is forward-looking and the Court Minister, Hussein Ala, is a powerful elder statesman.

8. Problems

"The basic problems underlying the political crisis, are economic. The stoppage of the oil industry is at the root of them. Oil expenditures used to provide about \$100 million of foreign exchange annually. About half this amount was royalty which was available for public expenditures. The loss of this revenue and of the foreign exchange has raised a whole series of problems.

a) There is an acute exchange crisis. Exports other than oil cover only about half normal imports. For the fiscal year ending 20 March 1951, imports were Rials 6846 million and exports Rials 3395 million, leaving a deficit of roughly Rials 3000 million or about \$50 million. In the first three quarters of 1951-52, imports increased as merchants stocked up. Exports also increased as a result of barter agreements but the deficit remained at about the same level. Since the end of calendar 1951, however, imports have been cut back sharply. This is in large part the result of the foreign exchange policy followed to hoard the scanty exchange that is available. The official rate is Rials 32 to the dollar. The National Bank will cash dollars at that rate and give a certificate to a broker, enabling one to receive an additional 34 to 40 rials, the gray market rate ranging in the two weeks of our stay from 66 to 72. The black market rate is 3 or 4 rials higher and has been over 90. Merchants must buy dollars when they can at the black or gray market rate, but must sell dollars at the official rate. Imports therefore become prohibitive. Customs and exchange regulation is severe; but there is much evasion particularly in small amounts. The real effect is paralysis of legitimate trade. Also each deal, for example by Point Four, or by the Iran Foundation, or the Near East Foundation, must be negotiated. Point Four bought \$5 million worth of sugar and solved a crisis caused by Soviet failure to deliver sugar - apparently deliberate in the hope of causing discontent - getting the gray market rate in Rials. All substantial sources of foreign exchange have now been exhausted and this payments crisis must get worse rapidly.

b) The treasury is virtually bankrupt. The police and security forces are paid first. Delays in civil service salaries get longer and this situation not only encourages graft but leads to a continuous slowing down of government activity, which also is progressive at an accelerating base. All capital construction is suspended and current expenditures are cut to the bone. Still, funds are inadequate to meet daily expenses. The maintenance of the oil industry, whose workers are still being paid though the refinery is idle, results in a heavy budgetary burden instead of a source of revenue.

c) The Seven Year Plan Organization is moribund. By law it was to have control of oil royalties for development purposes. Even before oil negotiations broke down, it did not in fact receive these funds because the government needed them for current expenses. The elaborate Seven Year Plan, supplemented by the costly surveys made by Overseas Consultants Inc., has been a dead letter since royalty payments ceased. All over the country there are projects in various stages of completion, arrested and deteriorating for lack of funds to finish them. The Plan Organization has dwindled to a small advisory group which must receive its minimum upkeep from Ministries which are themselves impoverished.

d) The National Bank (Bank Melli) has so far maintained control over the monetary circulation. It has kept the note issue 80 percent covered by gold (some of which is owed to Iran by the USSR), crown jewels, and other assets and has prevented over-issue. It has not

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made advances to the government apart from the war inflation. The price level has not yet risen much. On a base of 1936-37, 100, it was 946 in 1949-50 and fell to 784 in 1950-51. At the beginning of 1952 it was 875. This is partly due to abundant imports until recently, but mainly to strict orthodoxy in monetary policy. The counterpart of this is unemployment which has risen to menacing levels. Practically every source of foreign exchange and of local funds is now exhausted. The time must soon come when the Bank must either maintain the purchasing power of the currency at the cost of government defaulting on its current payments or begin the inflationary process of direct advances or increased note issues. The stability of the currency is one of the last pillars of confidence. If this is impaired, the shock to confidence will be severe.

9. Village Affairs

"As everywhere in the Near East, there is a double problem of urban growth, with its concomitant of an underpaid and largely unemployed proletariat, and large landholdings on which tenants at best are day-laborers and at worst little more than serfs. Few of these holdings are old estates. This is not a problem of an ancient landowning aristocracy. Indeed most of the owners are nouveaux riches, their acquisitions seldom going back more than two or three generations. There are exceptions, but in Iran as in Iraq the acquisition of landed estates is still going on and most of it is recent. This is the case with the Shah's estates which were acquired by his father, the first of the line. The present Shah, however, is keenly conscious of the urgency of redistributing the land to the peasants. He knows that the future of his line, and of his country, depends upon success in his announced undertaking to sell lands to the peasants who now till them.

10. "The other side of the story is that, although the landlords are new men for the most part, the peasants have never owned their land and have always depended upon the landowner or his agent to manage village affairs. This means keeping the underground water supply going, advancing money for subsistence and seed, supplying animals and all equipment, and managing the village. The peasant has never learned to work cooperatively with his fellows, to exercise independent decision, to manage his own financial affairs. For the very real economic functions he discharges, the landlord gets 60 percent or more of the crop. We had the case presented against giving the peasant more money. In this view the landlord should do for the peasant what he cannot do for himself.

11. "The Shah has rejected this view. He is on record and cannot retreat. The Land Commission, it is true, goes slowly and has so far surveyed only 12 villages and divided one. But the policy is set and division will go faster."

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